



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Ratlou Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ratlou Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ratlou Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, irregular and fruitless and wasteful expenditure

8. As disclosed in note 41 to the financial statements, unauthorised expenditure of R2 602 005 was incurred in the current year and the unauthorised expenditure in respect of prior years of R25 721 514 had not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R125 488 was incurred in the current year and fruitless and wasteful from prior years of R51 204 not yet been dealt with in accordance with section 32 of the MFMA
10. As disclosed in note 43 to the financial statements, irregular expenditure of R8 328 123 was incurred in the current year and irregular expenditure from prior years of R51 970 891 not yet been dealt with in accordance with section 32 of the MFMA.

Material impairments

11. As disclosed in notes 25 to the financial statements, impairment of R6 584 707 as a result of the significant impairment of debtors were incurred

Restatement of corresponding figures

12. As disclosed in note 38 to the financial statements, the corresponding figures for 2014 have been restated as a result of errors discovered during 2015 and reclassification of amounts disclosed in the financial statements of the Ratlou Local Municipality and for the year ended, 2014.

Additional matter paragraphs

13. The following additional matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development priority: Infrastructure development and service delivery on pages x to x
 - Development priority: Local economic development on pages x to x
 - Development priority: Good governance and public participation on pages x to x
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not identify any material findings on the usefulness and reliability of the reported performance information on any of the selected development priorities of the municipality.

Achievement of planned targets

22. Refer to the annual performance report on pages XX to XX and XX to XX for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the development priorities for infrastructure development and service delivery, local economic development and good governance and public participation. As management subsequently corrected these misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:



Annual financial statements and performance reports

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
26. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
27. The annual performance report for the year under review did not include a comparison of the performance with set targets and comparison with the previous financial year and the performance of each external service provider as required by section 46(1)(a) and (b) of the Municipal System Act, 2000 (Act No. 32 of 2000) (MSA).

Strategic planning and performance management

28. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance review and reporting and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations (MPPMR).

Expenditure management

29. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

30. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

31. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Liability management

32. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Audit committee

33. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Procurement and contract management

34. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations

Consequent management

35. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA

Environmental management

36. The municipality operated its waste disposal sites without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA).
37. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the National Water Act, 1998 (Act No. 36 of 1998) (NWA) and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.
38. The municipality did not exercise its legislative and executive authority as required by sections 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment

Internal control

39. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

40. Leadership did not adequately exercise appropriate oversight over financial and performance reporting and related internal controls, while decisive actions to address risks relating to the achievement of complete and accurate financial and performance reporting were not effectively implemented.

Financial and performance management

41. Management did not adequately implement effective controls to ensure that information presented in the financial statements is accurate and reliable before submission for audit. Regular; accurate and complete financial and performance reports that are supported and evidenced by reliable information were not properly prepared. Further, management did not adequately review and monitor compliance with applicable laws and regulation.

Governance

42. Despite the internal audit performing their planned audits at the municipality, they had limited impact due to the lack of implementation of their recommendations by the municipality. Further the audit committee did not adequately provide oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor General

Rustenburg

18 December 2015



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